

Message Text

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ACTION EB-08

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H-01 IO-13 /065 W
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R 191625Z MAY 78

FM AMEMBASSY ROME
TO SECSTATE WASHDC 2923
INFO AMEMBASSY BRUSSELS
AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE

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E.O. 11652: N/A
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SUBJECT: U.S. EUROPE CIVAIR ISSUES

REF: STATE 64526

SUMMARY. ALTHOUGH EMBASSY HAS ENSURED THAT GOI CIVAIR AUTHORITIES INFORMED ABOUT OUTCOME OF US NEGOTIATIONS WITH NETHERLANDS AND UK ON AIR FARES AND CHARTER SERVICES AND HAS INDICATED RECEPTIVITY TO ANY COMMENT AUTHORITIES MIGHT WISH TO MAKE, THEY HAVE NOT MADE ANY NOR HAS THERE BEEN MUCH ITALIAN PRESS ANALYSIS OR COMMENT ON THESE EVENTS. (PRESS ONLY HAS REPORTED NEW LOW FARE ANNOUNCEMENT BY AIRLINES). UMBERTO NORDIO, PRESIDENT AND MANAGING DIRECTOR OF ALITALIA

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PROVIDED AT LEAST ONE STRONGLY CRITICAL VIEW OF U.S. POLICIES ON ISSUES COVERED IN REFTEL WHEN HE SPOKE TO LARGELY U.S. BUSINESS AUDIENCE (AMERICAN CLUB OF ROME) ON MAY 16. IN SUM, HE SAID THAT IF THESE POLICIES CONTINUE IN PRESENT DIRECTION, THEY WILL FAIL. END SUMMARY.

1. NORDIO BEGAN BY TRACING DEVELOPMENT OF INTER-

NATIONAL CIVIL AVIATION BACK TO WHAT HE CALLED ITS REAL BEGINNINGS IN IMMEDIATE POST-WORLD WAR II PERIOD. IT HAD GROWN, HE SAID, SUPPORTED BY THREE PILLARS: BERMUDA I, INTERNATIONAL CIVIL AVIATION ORGANIZATION AND INTERNATIONAL AIR TRANSPORT ASSOCIATION (IATA). ALL THREE PILLARS CONTRIBUTED TO CREATING A SINGLE WORLD-WIDE NET OF FAIRLY UNIFORM CIVIL AVIATION SERVICES. IATA HAD BEEN GIVEN THE JOB BY GOVERNMENTS OF ESTABLISHING A SYSTEM OF FARES THAT WOULD BE EQUITABLE AND COHESIVE, PERMITTING FOR EXAMPLE, TICKET REFUNDS, TRANSFERS TO ANOTHER AIRLINE, ETC. IATA FARE SYSTEM HAD BEEN THREATENED BY THREE GROUPS OUTSIDE THE SYSTEM: A GROUP OF AIRLINES IN SOUTHEAST ASIA, AEROFLOT AND NON-SCHEDULED AIRLINES.

2. NORDIO CONCEDED THAT NON-SCHEDULED AIRLINES SERVED DEFINITE AND USEFUL PURPOSES, BUT HE EMPHASIZED THAT IF CHARTER RULES CONTINUE TO BE LOOSENERED CHARTER SEAT FACTORS WILL DECLINE FROM CURRENT 80 PERCENT TO 90 PERCENT RANGE TO LESS THAN 60 PERCENT. NON-SCHEDS WILL THEN SUFFER LOSSES AS WILL SCHEDULED AIRLINES IF FARS CONTINUE COMING DOWN. RESULT, HE SAID, WILL BE BANKRUPTCIES IN SOME CASES, BUT TAXPAYER SUPPORT IN MOST CASES. THUS, AIRLINE SYSTEM WOULD GO THE WAY OF THE RAILWAYS AND BECOME A SOCIAL SERVICE REQUIRING CONTINUOUS SUBSIDIZATION. CURRENT FAD, ESPECIALLY IN U.S., OF POSHING AIR FARES LOWER MIGHT WIN VOTES INITIALLY, NORDIO SAID, BUT IT WOULD

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LOSE VOTES LATER WHEN TAXPAYERS WOULD FEEL ADDED BURDEN. NORDIO CITED OTHER, HIGHER PRIORITIES FOR USE OF GOVERNMENT FUNDS SUCH AS HELPING THE VAST NUMBERS OF POOR AND ILLITERATE OF THE WORLD RATHER THAN TRYING TO INCREASE THE NUMBER OF THOSE WHO USE AVIATION SERVICES FROM THE CURRENT LEVEL OF 1.5 PERCENT OF THE WORLD'S POPULATION TO 2 OR 3 PERCENT. ANY GREATER INCREASE HIGHLY UNLIKELY AND EVEN INCREASE TO 2 PERCENT CERTAINLY WOULD NOT BE AN ENERGY CONSERVING DEVELOPMENT.

3. NORDIO SAID INCREASED COMPETITION IN CIVIL AVIATION U.S. WAS TOUTING WOULD NOT SUCCEED BECAUSE WOULD RESULT IN BATTLE FOR THE SURVIVAL OF THE FITTEST AND SUBSEQUENT INCREASED CONCENTRATION OF THE INDUSTRY IN THE HANDS OF FEW GIANTS. U.S. COULD NOT EXPORT THIS APPROACH, HOWEVER, BECAUSE GOVERNMENTS WOULD SUPPORT THEIR AIRLINES. NORDIO CLAIMED HE WAS NOT DEFENDING INEFFICIENCY OR ANTI-CONSUMERISM. ALITALIA COULD QUOTE FARES AS LOW AS ANYONE--AS IT HAD RECENTLY SHOWN BY REDUCING FARES BY ABOUT 25 PERCENT AND AT SAME TIME SIMPLIFYING THEM IN INTEREST OF CONSUMERS. HE COMMENTED CAUSTICALLY ON THE VAST NUMBER OF FARES (CITING A NUMBER OF EXCESS

OF 100) IN USE ON THE NORTH ATLANTIC WHERE ALITALIA NOW APPLIES ONLY FOUR FARES. IN RESPONSE TO A QUESTION FROM HIS AUDIENCE, NORDIO EXPANDED ON THESE POINTS LATER BY DENYING THAT MOST OF THE MAJOR EUROPEAN AIRLINES, SUCH AS LUFTHANSA, AIR FRANCE AND ALITALIA, ARE RECEIVING GOVERNMENT SUBSIDIES. (COMMENT: HE DID NOT MENTION AND NO ONE ASKED ABOUT THE MORE THAN \$200 MILLION IN THREE CONSECUTIVE RECAPITALIZATIONS ALITALIA HAS RECEIVED FROM IRI, THE STATE HOLDING COMPANY OVER THE PAST THREE YEARS). BECOMING SLIGHTLY EMOTIONAL, HE ASKED U.S. TO RECONSIDER ITS "CONSUMER CRAZE".

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4. ANOTHER QUESTIONER ASKED ABOUT THE CURRENT STATUS OF U.S.-ITALY CIVIL AVIATION RELATIONS. NORDIO RESPONDED BY REFERRING TO A RECENT CONVERSATION HE HAD WITH CIVIL AERONAUTICS BOARD CHAIRMAN ALFRED KAHN IN WHICH HE TOLD KAHN THAT THERE HAD BEEN A LOT OF PARADING UP AND DOWN AND LOTS OF BAND PLAYING, BUT THAT ITALY WAS NOW "READY TO SHOOT". HE ADDED THAT ITALY IS READY TO ACCEPT ANY NEW ROUTES, ANY NUMBER OF AIRLINES AND ANY TYPE OF AIRCRAFT, BUT IT WANTED REASONABLE CONTROL OF CAPACITY.

THE ABSENCE OF CAPACITY CONTROL WOULD LEAD TO INCREASING RETALIATORY "CONTROLS".

5. IN PRIVATE CONVERSATION, EMBOFF ASKED NORDIO
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WHETHER ALITALIA WAS STILL OPERATING IN THE BLACK DESPITE CONTINUING LABOR ACTIONS (MOSTLY SLOW-DOWNS AND WORK-TO-RULES) BY ALITALIA PILOTS AND FLIGHT PERSONNEL. NORDIO SAID YES, BUT, IN RESPONSE TO FURTHER QUESTION, SAID ALITALIA'S PROFIT POSITION WAS NOT DUE IN ANY PART TO ANY EFFECT RECENT REDUCTION IN AIR FARES MIGHT HAVE HAD ON SALES. HE MAINTAINED SALES HAD INCREASED FOR OTHER (UNSPECIFIED) REASONS. NORDIO SAID HE COULD NOT SEE THE END OF ALITALIA'S CURRENT LABOR TROUBLES. HE THEN RECOUNTED WITH SOME SATISFACTION THAT HE WAS TRYING A NEW TACTIC IN DEALING WITH LABOR PROBLEMS-- UNIQUELY SO FAR. INSTEAD OF GRADUALLY WORKING TOWARDS A COMPROMISE, HE HAD PUT HIS LAST POSITION ON THE TABLE IMMEDIATELY AND AS SOON AS A STRIKE WAS THREATENED HE HAD FIRED ONE PILOT AND THREATENED TO CONTINUE FIRING PILOTS SHOULD STRIKE CONTINUE. HE SAID HE HAD RECEIVED A VAST NUMBER OF LETTERS FROM ALITALIA CLIENTS SUPPORTING HIS STAND. (COMMENT: NORDIO HAS NOT TAKEN PUBLIC CREDIT FOR HAVING FIRED PILOT, A CASE WHICH IS NO UNDER COURT INQUIRY; IF HE WERE TO DO SO HE WOULD BE ATTACKED BY THE FEDERATED UNIONS EVEN THOUGH THEY ARE CHALLENGING AUTONOMOUS STATUS OF ANPAC, ATV AND ANPAV THE PILOTS, FLIGHT ENGINEERS AND FLIGHT STEWARDS/STEWARDESSES UNIONS. WORK-TO-RULE ACTIONS STOPPED ON APRIL 22 AND NEGOTIATIONS ARE PROCEEDING MAINLY WITH ANPAC AT THIS TIME). FINALLY, HE INDICATED ALITALIA'S INVESTMENT PLAN WOULD BE IN FINAL FORM BY OCTOBER, THAT IT WOULD CALL FOR THE EXPENDITURE OF ABOUT \$2.5 BILLION ON EQUIPMENT OVER THE NEXT TEN YEARS AND THAT ALL-CARGO WIDE BODY AIRCRAFT LED THE LIST.

6. COMMENT. ALTHOUGH NORDIO HAS DEMONSTRATED BOTH
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FRANKNESS AND STRENGTH ON MORE THAN ONE OCCASION, EMBASSY DOES NOT BELIEVE ITALY IS "READY TO SHOOT" TO ACHIEVE ALITALIA'S OBJECTIVES IN U.S.-ITALY CIVAIR RELATIONS. WE THINK NORDIO WAS JUST VENTING ONCE

AGAIN HIS EXASPERATION AT NOT BEING ABLE TO GAIN THE CAPACITY CONTROLS AND DIVISION OF THE MARKET HE WANTS FROM THE US. NEITHER INTERNATIONAL NOR DOMESTIC CONTEXTS SEEM RIGHT FOR DRASTIC CONFRONTATION. MOREOVER, NORDIO, WHO IS CURRENTLY RIDING HIGH DOMESTICALLY MAINLY ON THE BASIS OF ALITALIA'S FINANCIAL RECOVERY, APPEARS TO ASPIRE TO BE NEXT PRESIDENT OF IRI. HE IS UNLIKELY TO RISK LOSING SUCH A PROSPECT IN A SHOOT-OUT WITH THE U.S. UNLESS HE CAN BE REASONABLY SURE OF A SOLID VICTORY.GARDNER

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